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RUEHKM/AMEMBASSY KAMPALA 1476
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SUBJECT: IMF STAFF MISSION TO RWANDA OKAYS 2007 BUDGET

Classified By: Ambassador Michael R. Arietti, reason 1.4 (B/D)

¶1. (C) An IMF team conducted a staff mission to Rwanda October 18–November 2, and reached agreement in principle with the GOR on budget priorities and policies for 2007. According to IMF team members, the GOR's overly ambitious initial budget numbers have been trimmed, global budget numbers have been aligned with line ministry budgets, and a realistic energy policy has been put in place. The 2007 budget presented by Finance Minister Musoni to Parliament on November 2 will, according to private agreement with the GOR, be subject to some intra-sector realignment, and some defense expenditures will be reduced or transferred to agriculture. Assuming Parliament does enact these reductions and realignments by December, the IMF foresees disbursement of the second tranche of funds under the Poverty Reduction and Growth Facility (PRGF) in January. End summary.

¶2. (C) A visiting IMF team conducted a longer than usual staff mission to Rwanda October 18–November 2. IMF Resident Representative Lars Engstrom and Mission Leader Kristina Kosteial explained to us that delays occurred in generation of budget numbers by the GOR, due chiefly to the Rwandan cabinet's first-ever review of the GOR's Long Term Investment Framework. Ambitious in scope, and laudable in terms of its vision for an energized Rwandan economy centered on revitalized infrastructure and vibrant services and transportation sectors, the LTIF review delayed preparation of hard budget numbers. Donor governments subsequently balked at confirming direct budget assistance based upon budget numbers reflecting the LTIF's overly ambitious short-term goals.

¶3. (C) The IMF officials identified several areas where the IMF, donor governments and the GOR negotiated reductions or realignments. First, the IMF and donors required that overall budget numbers be reflected in the individual budgets of line ministries, linkages not clearly identifiable from the start. Second, the parties negotiated some lowered spending targets on infrastructure, and realignment of targets within budget sectors. For example, some spending on tertiary education and tertiary health care was transferred to primary education and primary health care (considered more in line with the GOR's own poverty reduction strategies). Further, the donors required a clear energy sector strategy, even as subsidies to Electrogaz, the government energy parastatal, rose substantially. Finally, rising military spending (chiefly on salaries) was in part reduced and transferred to the agriculture sector.

¶4. (C) The budget publicly presented to Parliament on

October 2 by Finance Minister Musoni was not, according to Engstrom, the final, agreed-upon budget, although many components were essentially correct (for example, the announced increase in the subsidy to Electrogaz from 2.2 billion to 4.4 billion Rwandan francs is accurate). Parliament is expected to realign and reduce budget allocations when it reviews the budget in December, he said. Assuming Parliament acted as expected, he said, the IMF in its January review by its Management and Executive Board would likely make the second disbursement under the PRGF of \$1.7 million.

¶5. (C) Some elements of the 2007 "development" budget (a component of capital expenditures), the IMF officials explained, would depend upon the final level of donor direct budget support. The fiscal deficit could rise, but it must be matched by rising grants by donors. Rising taxes on cigarettes, "airtime" (cell phone and landline fees) and alcohol would also help finance the rising budget, forecast by Minister Musoni at a 25% increase over 2006 (from 395.5 to 493.3 billion Rwandan francs). Musoni projected a 6.5% increase in GDP, such growth also a projected source of increased revenue.

¶6. (C) The IMF officials were generally pleased at the final budget numbers, although noting that lack of dialogue with donor governments in the opening stages of budget preparation had slowed the process. Engstrom commented that the GOR's ambitious vision of Rwanda as a future regional services and trading hub worked in the favor of the IMF and the donor governments, as they could counsel reform in key sectors, and restraint in spending.

ARIETTI